Banking and Poor People:

Talk Is Cheap

A Report by the
National Council of Welfare

Summer 1998

Canada

BANKING AND POOR PEOPLE:

TALK IS CHEAP

A Report by the

National Council of Welfare

Summer 1998

Copies of this publication may be obtained from:

National Council of Welfare
2nd Floor, 1010 Somerset Street West
Ottawa K1A 0J9
(613) 957-2963
FAX: (613) 957-0680
E-MAIL: ncw@magi.com

Également disponible en français sous le titre:
Les services bancaires et les pauvres : parler, ça ne coûte pas cher

Cat. No. H68-45/1998E
ISBN 0-662-27096-7

TABLE OF CONTENTS

AN EYEWITNESS ACCOUNT: BANKING ON THE DOWNTOWN EASTSIDE

One of the things I do on a regular basis at the agency where I work in Vancouver is called "shadowing shifts." That means I attach myself for a full day to one of my line workers and do whatever they do. Early in 1998, I booked a day with one of my workers when I knew she would be helping clients on what they call "Welfare Wednesday." I especially wanted to see what welfare recipients have to deal with when they pick up their cheques and go to cash them at the bank.

We started out first thing in the morning: myself, a line worker, a client and her two preschool children. The woman picked up her cheque from the welfare office, a process that took about 30 minutes, and we went to a local branch of the Canadian Imperial Bank of Commerce. They had security guards at the door, and we were told that they were not cashing welfare cheques on that particular day. However, they said the Bank of Montreal across the street had agreed to cash welfare cheques that month.

We walked across the street. There were security guards at the door. They made everybody who didn't have an account at the bank line up on the street, and they allowed them into the bank one at a time - one at a time on a rainy, cold, miserable day. The bank had a large lobby area inside that was virtually empty. We waited on the street for about 60 minutes.

I was outraged at the way this woman was treated, but she was not overly concerned herself. She said this is what she was used to and what her friends were used to. She said she would not waste her time getting upset, because it was just too frustrating to get upset every time she had to cash a cheque.

I have never been treated this way in a bank, and I wonder why the banks feel that it is OK to treat poor people like criminals. This is a side to banking that I have not seen depicted in banking commercials.

The experience got me thinking about an earlier visit I had made to the Four Corners Community Savings bank nearby. Four Corners deals almost exclusively with poor people from the Downtown Eastside. They never had security guards, and they never had any real trouble. People waited inside. There was coffee. There was a bathroom for people to use. And there were chairs and low counters so that people could sit down while they did their banking. Needless to say, it was worlds away from the treatment provided by the two chartered banks.

I. THE ROLE OF THE FINANCIAL SERVICES SECTOR

Few institutions are as vital to the success of a modern economy as the institutions that provide cash and credit to millions of individuals in Canada and to their businesses, their governments and the groups in the voluntary sector that enrich their communities. As the Task Force on the Future of the Canadian Financial Services Sector says in the introduction to its 1997 discussion paper, "The nation's efficiency, competitiveness, depth of employment opportunities and quality of life are enhanced by an effective financial services sector."[1]

Canada's financial institutions have changed dramatically within the past generation, and it is obvious that not all of the changes are for the better. Access to cash and credit is a good case in point. On the one hand, it has never been so easy for most people to get credit cards, mortgage loans or personal lines of credit. On the other hand, banks and other financial institutions continue to charge interest rates on outstanding credit card balances that are usurious, if not scandalous, by any objective standard.

The National Council of Welfare was pleased to see the federal government set up the Task Force on the Future of the Canadian Financial Services Sector in 1996. We are publishing this report partly as a special representation to the Task Force, and we hope it will be of use in the preparation of the Task Force's own report and recommendations.

The mandate of the National Council of Welfare is to advise the federal Minister of Human Resources Development on matters of concern to low-income people, and this report limits itself to several key issues raised by the Task Force which are within our mandate.

The most important issue is promoting the best interests of consumers, including low-income consumers. Access to basic banking services has been a long-standing problem for many poor people in Canada, and we do not believe it will be resolved unless governments are prepared to use the stick as well as the carrot in their dealings with financial institutions.

In an age when virtually every Canadian adult has regular financial dealings with governments - from tax refunds or the Canada Child Tax Benefit to old-age pensions or welfare -

it is absolutely essential that people have ready access to banking services. Cashing a government cheque is a right, not a privilege.

Our concerns about access to services by poor people were heightened with the release of a report in June 1998 by the consumer rights group Option consommateurs which documented bank closings in poor neighbourhoods in many parts of Canada.

Promoting the best interest of consumers also means reasonable access on reasonable terms to a wide range of financial services, fair treatment for all consumers and the right to seek redress of grievances through an ombudsman or other independent third party.

A second key issue raised by the Task Force is the contribution of the financial services sector to economic growth and job creation. The discussion paper mentions specifically the needs of small businesses. We share that concern when it comes to small businesses in poor neighbourhoods and in rural and remote communities. Are these needs well served, as banks and others claim? No one really knows for sure, because our financial institutions have provided virtually no data to allow us to know one way or the another.

Full, frank and detailed disclosure of lending patterns is absolutely essential for Canadians to judge how well their financial institutions are contributing to economic development.

Job creation is another concern, and a concern that has grown with the merger plans unveiled in the early months of 1998 by four of the largest financial institutions in Canada. Every analysis we have seen points to a major loss of jobs if the merger plans are approved by the federal government. It is difficult to see how massive job losses will promote economic growth, especially at a time when unemployment is still at unacceptably high levels.

Overall, the Task Force discussion paper assumes that many of the problems of the financial services sector can be overcome through the rigours imposed by the market. The paper talks about competition and disclosure as "controllers of market conduct" that can ensure good service at low prices. That may be true in some segments of the market, but it is certainly not true in the segments of most concern to poor people. It is laughable to think of Canada's largest and most affluent financial institutions competing vigourously with each other for the right to do

business with welfare recipients. It is just as naive to expect that disclosure alone will shame banks and other financial institutions into slashing interest rates or service fees whenever they are grossly out of line.

"Canada, like other modern economies, has traditionally relied on government to provide some assurance that financial institutions are reputable and well-managed, and that they will meet their commitments," the discussion paper says. "In our society, it is accepted that ownership of a regulated financial institution is a privilege, not a right."[2]

The National Council of Welfare could not agree more. We also believe that government intervention is needed from time to time to ensure that Canadian financial institutions live up to their obligations to the people of Canada. In the case of the large banks, that means reasonable service to all people in all parts of the country. It also means addressing the needs of Canadians before seeking new challenges in foreign markets.

The focus of this report is the services provided by the chartered banks, which include Canada's largest financial institutions and which are regulated by the federal government. However, many of the recommendations apply equally well to other types of financial institutions such as credit unions and trust companies. Many of these institutions are regulated by provincial and territorial governments.

The appendix is a case study of the Four Corners Community Savings bank in Vancouver. It is a condensed version of a study commissioned by the National Council of Welfare and written by the Social Planning and Research Council of British Columbia. The case study echoes the concerns raised in our eyewitness account at the beginning of this report, and it shows just how difficult it is to get traditional financial institutions to provide good service in all parts of Canada.

The subtitle of this report Talk is Cheap may strike some readers as a cheap shot at Canada's financial institutions. It was chosen deliberately as a reminder of the many promises made over the years by banks that have not yet been turned into reality.

II. ACCESS TO FINANCIAL SERVICES

Over the years, the banking community has devoted considerable time and effort to the issue of improving access to basic services for poor people. It has met the National Council of Welfare, the National Anti-Poverty Organization and other anti-poverty groups to discuss possible solutions. It has tried to publicize problems of access both within the financial community and without. It has made public commitments to try to ensure fair and polite treatment of all customers, both big and small. And it has liberalized the identification requirements that have stood in the way of easy access to services.

Sadly, there is much left to do. The policies espoused by the Canadian Bankers Association and the senior executives of its member banks are all too often ignored by neighbourhood branches. The record of governments is also mixed. Some government policies have had the effect of improving access to services, while others have made it more difficult.

The National Council of Welfare believes that access to basic banking services is a right, not a privilege. Virtually all Canadians get government cheques from time to time. It makes no sense whatsoever for people to receive government cheques unless they have some simple way of cashing them. That is where banks and other financial institutions come in.

Access to financial services is a problem in the first instance because many low-income people do not have accounts at a bank, trust company or credit union. The most definitive information on banking and poor people comes from a national survey conducted by Environics Research Group Ltd. in July 1995 for the Association coopérative d'économie familiale (ACEF) of Montreal, a consumer rights group now known as Option consommateurs. The survey found that nearly eight percent of the adults living in households with incomes of $25,000 a year or less did not have a bank account. That translates into roughly 300,000 people.[3]

Access is less of a problem in Quebec generally and in rural communities in Quebec in particular because of the strong credit union movement. Another reason is that Quebec prohibits businesses from charging fees to cash cheques issued by the provincial government. That limits the scope of cheque-cashing services and directs more customers to banks and credit unions.

The Environics survey showed that 2.5 percent of the adults in Quebec with incomes under $25,000 did not have bank accounts. The comparable figure for adults without bank accounts for the rest of Canada was 10.4 percent.

For people without an account, cashing a cheque can be a big hassle. Perhaps the single most important issue still to be resolved relates to the identification needed to cash a cheque or open an account. A 1993 survey of residents of the Downtown Eastside area of Vancouver found that lack of identification was by far the main reason people did not have bank accounts.[4]

One of the more notable steps forward in recent years was an understanding between the banks and the federal government that was announced on February 14, 1997. Under the arrangement, the Canadian Bankers Association and its member banks agreed to accept two, rather than three pieces of identification from customers who want to open a bank account or cash a cheque. Photo IDs are no longer mandatory, although the banks say they still prefer them.

The forms of identification that the banks say are normally acceptable include the following:[5]

- personal reference by a known customer or bank employee;
- federal social insurance card;
- provincial or territorial health insurance card, where permitted by law;
- valid driver's license issued in Canada;
- employer ID card with a photograph or security pass from a "well-known company";
- credit card from a "well-known, reputable, financial institution";
- banking or automatic teller card;

- Canadian citizenship card;
- Indian status certificate;
- federal Old Age Security card; and
- passport, preferably Canadian.

The list seems reasonable enough at first glance, but the reality is that there are still some poor people who would have trouble coming up with the required two pieces of identification.

There is no definitive information for Canada as a whole on the kinds of identification poor people normally have. A 1993 survey in Quebec by the CROP polling organization found that 98 percent of respondents with incomes below $20,000 a year had provincial health insurance cards and 98 percent had federal social insurance cards. Only 68 percent had a driver's license, only 44 percent had a credit card, and only 27 percent had a passport.[6]

Prince Edward Island, Ontario and Manitoba have legislation that prevents financial institutions from using health insurance cards as a form of ID. Quebec legislation says banks cannot request health insurance cards or drivers' licenses for purposes of identification, although customers are allowed to show them voluntarily.

Several of the items on the banks' list are items that many poor people would not have by virtue of their economic circumstances, items such as an ID card from another bank, a credit card or a driver's license. Banks do not require a person to have a job to open an account or cash a cheque, but a person without a job obviously would not have an up-to-date employer ID card.

The last four items on the list are also unlikely forms of identification for poor people, unless they happen to be immigrants, status Indians, seniors or people who had travelled overseas before they became poor.

The biggest problem with the list, however, is that the Canadian Bankers Association and its member banks have been unable to get branch banks across the country to take it seriously.

Incredible as it may sound, the policies laid down by head offices simply are not being followed by all neighbourhood banks.

It is difficult to believe that branch banks would ever be allowed to ignore head office personnel policies for their employees or to vary the standard schedule of service charges or to set their own interest rates. Yet the Canadian Bankers Association talks repeatedly about the difficulties of having consistent policies on identification from one branch to another.

Survey after survey has shown widespread ignorance and disregard for head office policies on identification. Most of the survey results are unequivocal. Breaches of policy are the rule rather than the exception.

One of the best-known surveys was done in February 1996 by ACEF. The association had two investigators do a telephone survey of 22 banks and credit unions in low-income neighbourhoods of Toronto and another 22 institutions in Vancouver. The investigators posed as a welfare recipient with a welfare cheque to cash and as a worker earning $210 a week who wanted to cash a federal GST Credit cheque.[7]

The main purpose of the survey was to see whether a low-income person could cash a government cheque or open an account with the types of ID that were required at the time by the major banks. The investigators said they had a health insurance card, a social insurance card, a birth certificate and an electricity bill with their name and address on it to verify their residence.

The investigators contacted branches of the same banks in Toronto and Vancouver: the Royal Bank of Canada, the Bank of Montreal, the Canadian Imperial Bank of Commerce, the Bank of Nova Scotia and the Toronto-Dominion Bank. They also contacted two branches of the Metro Credit Union in Toronto, the Fishermen's Credit Union in Vancouver, and a branch of the Vancouver City Savings Credit Union.

Every one of the 44 institutions in Toronto and Vancouver contacted by the person posing as a low-wage worker said they would not cash a GST Credit cheque for a person without an account. Only two of the institutions, both of them banks in Toronto, said they would open a chequing account for the person based on the ID that was offered.

The situation was scarcely better for the person posing as a welfare recipient. Only three of the 44 institutions contacted said they would cash a welfare cheque, but they would not open a chequing account. All three were Bank of Montreal branches in Toronto, the same bank that issued municipal welfare cheques for the regional government in Toronto. Only two of the 44 institutions, a different branch of the Bank of Montreal in Toronto and a branch of the Metro Credit Union, said they would open an account for the person. None of the institutions in Vancouver would cash a welfare cheque or open an account.

The investigators also asked if it was possible to cash a cheque or open an account if they were able to produce additional identification. In many cases, they were told that a driver's license or passport were preferred forms of ID.

Other surveys have documented problems of access in other parts of Canada. A 1993 ACEF survey of more than 200 institutions in Montreal showed that only 36 percent of the banks would have opened an account for a welfare recipient, while 84 percent would have opened an account for a low-wage worker. Credit unions affiliated with the Desjardins movement were much more likely to open accounts for poor people.[8]

Many months after the announcement of February 1997 aimed at improving access to banking services, the Canadian Community Reinvestment Coalition accused the banks of not living up to their own guidelines. A subsequent spot check of two branch banks by Southam News Service supported the coalition's findings.

"Financial institutions cannot be trusted to solve problems of access to banking services for the poor," said the chairperson of the coalition.[9]

A spokesperson for the Canadian Bankers Association replied: "We've got 207,000 employees that we have to try and communicate this information to, and we are working on it, but we're not all the way there."[10]

The concern of banks for proper identification is understandable as a matter of good business practices, but the reality is that banks already have a lot more protection against losses from bad cheques than other businesses.

The chief means of protection is an indemnification plan run by the Canadian Payments Association known as Rule G-8. Under the rule, the federal government will pay a financial institution compensation of up to $1,500 per cheque if it cashes a federal government cheque that turns out to be fraudulent. The main requirements are that the banks ask for positive identification before cashing a cheque and that they try to recover the lost funds before seeking indemnification.[11]

In theory, the plan relieves the banks of much of the risk surrounding routine financial transactions. Most monthly cheques for Employment Insurance, Old Age Security, Canada Pension Plan benefits or federal children's benefits are well under the limit of $1,500. Assuming a person has reasonable ID, there should be no hesitation about cashing a cheque or opening an account.

The Desjardins group in Quebec has an insurance plan for covering losses on cheques issued by the provincial government, and the government of British Columbia has a plan that covers the losses of financial institutions on welfare cheques.

All things considered, access to financial services for poor people should not be a difficult issue to resolve. What is needed more than anything else is for banks and other financial institutions to take their commitments seriously. Governments could take a major step forward by accelerating their plans for provincial or territorial health insurance cards with photographs and by easing or eliminating the legal limitations associated with those cards as forms of identification.

Despite the efforts of the Canadian Bankers Association and its member banks, too many managers and employees of local branch banks are not living up to the letter or the spirit of head office policies on the types of identification needed to open a bank account or cash a cheque.

The association is taking more aggressive measures to bring wayward branches into line with inserts about opening accounts and cashing cheques that are being mailed with federal government cheques in the summer and fall of 1998. Recipients are being urged to show the inserts to any bank staff members who seem unaware of their employer's stated policies. The inserts are issued under the authority of the federal Minister of Finance and include toll-free numbers to call to complain about breaches in policy.

The Royal Bank of Canada has also tried to address the problem by printing small placards that can be displayed on the counters of its branch banks. The placards summarize clearly and succinctly the types of ID needed to open an account. This is certainly a step in the right direction. It would be even better, however, for all financial institutions to have a consumer information billboard prominently displayed in every branch that included information on ID requirements and policies in other areas, such as service charges, interest rates on deposits and loans, and how to get complaints resolved.

There are mixed opinions about the use of government-issued ID cards as a way of helping poor people and others gain access to financial services. The Canadian Bankers Association is probably the leading proponent of having governments issue new types of photo identification that would give their member banks additional assurances. Presumably, the main new type of photo ID would be a card issued by provincial and territorial governments to identify current welfare recipients.

The National Council of Welfare has concerns about governments burdening people with additional forms of identification, and it has grave concerns about any type of ID that would single out recipients of social programs as a "special" class of individuals.

The reality is that some governments have already moved to photo ID cards to identify people who are eligible to receive medical and hospital treatment under public health insurance plans, and others are in various stages of moving to photo IDs. If photo IDs for the purposes of health care are going to be universal before long, what is the point of governments developing yet another kind of photo identification?

The 1993 CROP survey in Quebec showed that 98 percent of poor people had a health insurance card, so they already had an acceptable and reliable form of identification when it comes to insured medical and hospital services. It would certainly be in the interest of provincial officials to follow up the circumstances of the other two percent. If they are eligible for medicare but not actually covered, the situation should be rectified immediately. If they are not eligible for medicare, it would be useful to know why not, and whether there are any obvious alternative forms of identification. It could be, for example, that some people without health insurance cards

are only temporary residents of the province and have documents from other jurisdictions that are acceptable ID for the purposes of banking.

In any event, the National Council of Welfare believes that provincial governments should stop being so squeamish about the use of health insurance cards. We support government efforts to safeguard the confidentiality of medicare records, but we do not see how confidentiality would be breached if a person did nothing more than show a health insurance card to a bank employee for purposes of identification.

The federal government could make things easier for poor people by easing up on its regulations concerning the "laundering" of money obtained through illegal activity. The Canadian Bankers Association claims that part of the problem with proper ID arises from federal Proceeds of Crime Identification regulations.

The idea of an army of poor people being recruited by organized crime to launder the proceeds of drugs, loan-sharking and prostitution strikes us as bizarre, if not downright ludicrous. The fact is that many poor people need access to banking services because they have government cheques of one kind or another to cash. We simply do not understand how any cheque, real or bogus, drawn on a government could be part of a scheme to launder money for a third party. However, if the federal regulations are unduly restrictive, they should be relaxed.

Recommendations:

1. Banks and other financial institutions should stop making excuses and take immediate steps to guarantee that head office policies on access to banking services are followed by all branches. Financial institutions should not tolerate deviations from head office policies on the types of identification needed to open an account or cash a cheque.

2. Federal and provincial governments should do periodic spot checks to make sure that financial institutions live up to their commitments to have reasonable identification requirements for people to open accounts or cash cheques.

3. All financial institutions should have public information bulletin boards displayed prominently in all their premises that explain their policies on identification, service charges, interest rates on deposits and loans, procedures for resolving complaints and other issues of interest to customers. All the information posted on the bulletin boards should be written in understandable, everyday language.

4. Provincial and territorial governments should allow the use of public health insurance cards as an acceptable way of establishing a person's identity outside of the health care field.

5. The federal government should review its money-laundering regulations to make sure that they do not interfere with the banking rights of ordinary Canadians.

III. REASONABLE SERVICES, REASONABLE TREATMENT

Establishing an account at a bank or other financial institution is an important first step to help poor people get reasonable access to banking services, but it is not the only hurdle to overcome. All customers, rich and poor alike, need ready access to financial services at appropriate times and places, and that becomes more and more difficult for poor people as banks and other institutions continue pulling out of poor neighbourhoods. Reasonable access also means that people can meet their banking needs at reasonable cost. It means that they should not be required to maintain sizable minimum balances in their accounts, and they should not have their cheques "frozen" or held for days on end. All customers deserve fair, polite and respectful treatment from employees of financial institutions. And all customers need a consumer advocate to turn to when they have complaints about the way their financial institutions operate.

A study published in June 1998 by Option consommateurs showed that banks have been closing branches in poor neighbourhoods of larger cities and in small rural communities for the last 20 years or so. Meanwhile, there have been numerous branch openings in new suburban communities. The study included a detailed analysis of closings and openings in four areas of Canada:[12]

- Neighbourhoods in the downtown, central and southwestern areas of Montreal lost about 150 branch banks between 1977 and 1997.

- There has been an exodus of banks from downtown Calgary to the suburbs.

- Smaller cities, towns and rural areas of eastern Ontario have lost financial outlets during the past 20 years. Some of the communities that lost services were communities that had only one outlet to start with.

- In Cape Breton and three nearby counties of Nova Scotia, the most dramatic change of recent years was a drop in the number of credit unions from 41 in 1987 to 28 in 1997.

"It's better to be a suburbanite if you want to live close to a range of financial institutions and benefit from the competition," the study concludes. "Consumers who live in the aging neighbourhoods of large cities or in rural areas do not enjoy that variety of choices and often have to go further and further away to get to a bank counter."

Ready access to banking services also requires reasonable hours for branch banking and reasonable locations for automatic teller machines. Banking in the evening and on Saturday was once a rarity in Canada, but now is fairly common in urban areas. More remains to be done to ensure reasonable hours in rural and remote areas and in poor neighbourhoods in large cities. Among other things, this means providing sufficient personnel to handle busy times of the month when pension cheques or welfare cheques come out. A working group in the Côte-des-Neiges neighbourhood of Montreal noticed a few years ago that some banks were crowded and some were practically deserted on days of the month when welfare cheques arrived. In one of the branches least patronized, a person who wanted to open an account had to make an appointment, and that presumably led many potential customers elsewhere.[13]

Part of the answer may lie with the growing number of ATMs in Canada, both the ATMs that are located on the premises of financial institutions and the ATMs that are becoming commonplace in supermarkets, gas stations and convenience stores. ATMs could be a reasonable alternative in parts of Canada that are simply too sparsely populated to have branch banks on every other street corner. Canada is already a world leader in automated banking, and the Canadian Bankers Association estimates that 17.5 million of the 21 million adults in the country have cards that allow them access to ATMs.[14]

Access to banking would also be much improved with greater use of direct deposit for government benefit cheques and payroll cheques. Direct deposit ensures that people have bank accounts in the first instance, and it gives them instant access to their money as soon as it is deposited in the account. People with ATM cards can get their money after hours or on weekends simply by going to the nearest machine. There is no need for people lining up at the bank counter to wait for a teller. Automated banking could be of special value in neighbourhoods where robbery and purse-snatching are concerns of local residents. People with ready access to services through automated banking would be less likely to be carrying large sums of money on days when government cheques are issued.

The National Council of Welfare does not believe that people should be forced to accept direct deposit for any cheques or be forced to use automatic teller machines for routine banking. At the same time, we believe that most people would find it in their best interest to give automated banking a try. At the very least, it would guarantee them access to banking services and access to their funds at the earliest possibility.

Many government programs now promote the use of direct deposit. A majority of seniors get their Old Age Security and Canada Pension Plan cheques by direct deposit. The same is true in the case of federal government payroll cheques and welfare cheques in some provinces.[15] The 1993 survey in the Downtown Eastside of Vancouver showed that 72 percent of the respondents - mostly poor people dependent on government income security programs - said they would use direct deposit if it were available.[16]

At the same time, we can appreciate that some people have fears about embracing the new technology of banking. To allay these fears, chartered banks and other financial institutions are already holding community information sessions and making mock ATMs available in local branches from time to time to help people feel more comfortable with automated banking.

Recommendations:

6. To ensure reasonable service in all parts of Canada, the federal government should impose a moratorium on the closing of branch offices by banks and other financial institutions under its control. The moratorium would be lifted in individual cases only when the federal government is convinced that an area is adequately served by other financial institutions.

7. Financial institutions should arrange for extra tellers and extend their normal business hours to meet the need for additional services on days when government cheques are issued.

8. Governments and financial institutions should promote the use of direct deposit of government cheques as a service to Canadians, but direct deposit should not be mandatory.

Branch closings and poor service are only two of the complaints people have about access to financial institutions. Another common complaint is the variety of fees and service charges for people who do not fall into the category of "preferred" customers.

Many institutions have special types of accounts for seniors or students where a person can do a variety of transactions for a very low monthly fee or no fee at all. The Canadian Bankers Association estimates that 45 to 60 percent of bank customers get no-fee banking.[17] People who do not fall into one of these special categories could pay hefty fees for the same services.

Only the people who work for financial institutions really know the actual cost of cashing a cheque or paying a utility bill at the counter or using an automatic teller machine for a routine deposit or withdrawal. Banks and other financial institutions routinely package their services and charge customers a flat monthly fee for each package. Unsuspecting customers could wind up paying more at a bank than at a cheque-cashing service if they are sold a high-cost package and never do more than a few basic transactions a month.

Confusion seems to be the hallmark of most of the package deals offered by the banks. The World Wide Web site of the Royal Bank, for example, describes 12 different packages at prices ranging from a no-fee package for people 60 and older to a V.I.P. package that costs $25 a month. Many of the core services provided by these two packages are identical, although there are obviously additional services in the $25 package.

It is difficult to imagine how a typical consumer could make an intelligent choice of a bank, much less a package of banking services, without doing exhaustive research. A person with a computer and Internet access could start on the web sites of different financial institutions, but would probably have to telephone or visit the institutions in person to get all the relevant information. The Royal Bank web site, for example, did not say whether the different packages require customers to maintain a minimum monthly balance in their account. A minimum monthly balance of $1,000 that does not accrue interest is equivalent to $30 a year in service fees if the prevailing interest rate is three percent.

The National Council of Welfare believes that customers of banks and other financial institutions should be able to have no-frills accounts for a modest monthly cost to meet their basic

financial needs. No-frills accounts should be available to all customers, not just low-income customers, seniors, students or beneficiaries of government programs. People with more sophisticated banking needs will obviously choose packages with more options, but the fees they pay should still reflect the actual cost of the services provided.

What kind of services should be in a no-frills banking package? There is no definitive information on the types of services most attractive to low-income people, but it seems reasonable to assume that many people would like a limited number of deposits and withdrawals every month and a way to pay for housing, utilities and day-to-day expenses.

One example of the services that might be used in a poor community comes from a survey in the Downtown Eastside of Vancouver that was done in 1993 as part of the process that led the government of British Columbia to create the Four Corners Community Savings bank. People in the community were asked about the kind of products and services that could be offered at a new bank. The list that follows covers the top items, beginning with the item most frequently mentioned as important:[18]

- open six days a week;
- tax refund service;
- daily interest savings;
- automated teller machine;
- tax preparation service;
- chequing account;
- financial advice;
- personal loans;

- utility bill payments;
- automatic monthly payments; and
- debt counselling.

Interestingly, having a bank open six days a week instead of five was by far the most popular item on the list. Tax preparation and tax refund services, which are not normally offered by banks, trust companies or credit unions, also were high on the list.

The other financial services judged to be important were not esoteric. Like many Canadians, the people in the survey wanted a place to cash a cheque, hold their savings, pay their bills or get a bit of financial advice from an expert.

To get an idea of the cost of services that might be useful, the National Council of Welfare visited the financial service charges calculator at the Industry Canada web site and priced two types of no-frills packages at 11 different institutions. The list included seven banks, two trust companies and two credit unions. We specified that there would be no minimum monthly balances in any of the accounts.[19] The range of monthly costs for each of the two types of packages is shown in Table 1 on the next page.

The first package that we priced, shown in the column headed "16 counter services," was a package that was deliberately weighted in favour of face-to-face transactions at the counter. The package consisted of four payroll cheques deposited in person, four cash withdrawals in person, four bill payments in person, and four cheques that would be deposited by the recipient and cleared through the cheque-clearing system.

The service fees for the 16-item package ranged from a low of $7.05 a month using a regular chequing account at the Metro Credit Union in Toronto to a high of $25 a month for so-called full service packages at several of the chartered banks. Obviously, the more expensive packages offered customers a number of services that went well beyond a no-frills package. On the other hand, it is interesting to note that the least expensive option displayed still cost $7.05 a

month. That would appear to be well beyond the actual cost of handling the specific items in our package.

TABLE 1

MONTHLY FEES FOR SERVICES AT FINANCIAL INSTITUTIONS SHOWN ON THE INDUSTRY CANADA WEB SITE, APRIL 1998

Institution	16 Counter Services	16 Automated Services
Bank of Montreal	$13 to $25	$4 to $25
Canadian Imperial Bank of Commerce	$10 to $24.50	$3.40 to $24.50
Laurentian Bank	$10.95 to $20.95	$5 to $20.95
National Bank	$8.75 to $24.35	$4.20 to $15
Royal Bank of Canada	$9.50 to $25	$2.20 to $25
Scotiabank	$9.95 to $17.70	$7.10 to $14.50
Toronto-Dominion Bank	$12 to $25	$3.40 to $25
Canada Trust	$9.95 to $24.95	No ATM bill payments
National Trust	$9.50 to $20	No ATM bill payments
Desjardins Credit Union	$11.95 to $20.20	$5.20 to $11.95
Metro Credit Union	$7.05 to $7.83	$5 to $5.91

The column headed "16 automated services" shows the cost of a similar package that did not require counter service. The package consisted of four direct deposits of payroll cheques, four cash withdrawals using the automatic teller machine of the institution, four bill payments using the institution's ATM, and four payments using a debit card through the Interact network.

The fees for the least expensive packages were noticeably lower than the fees for comparable counter services at the same institutions. The cost of 16 automated services at the

Royal Bank of Canada, for example, was only $2.20 a month with a Signature Plus account. The same services at the counter would have cost $9.50 a month or more.

Calculations were not available for the two trust companies shown in Table 1 because they did not offer bill payments through their ATMs.

Based on the information in the table, what would be a reasonable price for a no-frills account? Our recommendation is $2 a month for 16 basic transactions, whether they are done by machine or in person at the counter. We do not believe that there should ever be a fee for depositing a cheque, whether by direct deposit or in person, and there should never be a fee for withdrawing cash. The $2 monthly charge that we are proposing would probably cover all or most of the cost of the four cheques or Interact debits and four bill payments at an ATM or at the counter.

Since automated transactions are less costly than personal banking, a monthly charge of $2 would be a good incentive for financial institutions to promote the benefits of automated banking among their customers.

Recommendation:

9. Banks and other financial institutions should offer no-frills accounts that provide a minimum of 16 basic banking transactions for a monthly fee of $2. Basic transactions would include deposits, cash withdrawals, bill payments and cheques or electronic debits. There should be no minimum monthly balance requirements for no-frills accounts.

Excessively high service charges are only one of the problems low-income people face when they go to the bank. Another common problem is the excessive amount of time that cheques presented for deposit are "frozen" or held until they clear the cheque-clearing service of the Canadian Payments Association and are paid by the institution where they originated.

Financial institutions put holds on cheques when they fear the cheques will not be honoured by the originating institution. Holds are clearly justified in some cases, but certainly not in most cases.

The banking survey done by the ACEF in Toronto and Vancouver found that several of the institutions would have placed lengthy holds on welfare cheques and GST Credit cheques - assuming they were accepted for deposit in the first place. In the case of welfare cheques in the survey, seven of the institutions would have placed a hold of between six and ten days on the cheques, and two institutions would have frozen the cheques for more than ten days. ACEF said freezing any government cheque for any longer than two days is tantamount to refusing to open an account.[20]

In the case of a government-issued cheque or payroll cheque from a local employer, it is difficult to see why any hold at all would be justified, assuming that the person trying to cash the cheque had an account or the type of identification covered in the 1997 arrangement between the banks and the federal government. The government of Canada, the government of British Columbia and the Desjardins movement in Quebec all have arrangements to indemnify institutions where certain types of government cheques turn out to be fraudulent. Payroll cheques, at least those from larger employers in the community, should also be well known to local financial institutions.

If the cheque were a personal cheque for a large amount drawn on an institution in another part of the country and endorsed to a third party, it might indeed be prudent for a bank to freeze the proceeds until the cheque clears the Canadian Payments Association. In any event, no hold should ever be imposed that is longer than the time needed for cheque-clearing.

The United States enacted the Expedited Funds Availability Act in 1987 with specific rules on freezes and holds that vary with the type of cheque being cashed. Funds from most government cheques have to be available in full the first business day after the day of deposit. The same limit applies to cheques drawn on the same institution in the same region, cashier's cheques and certified cheques. Holds of up to four days are allowed in the case of a cheque from another bank in a different region of the country.[21]

In Canada, cheque-clearing through the Canadian Payments Association is faster than in many other countries. Most cheques can be cleared in one business day when the two financial institutions are in the same region. The comparable figure in the United States is two days.[22]

We believe the Expedited Funds Availability Act could serve as a useful model for Canada to follow in the absence of reasonable policies from all financial institutions regarding freezes and holds.

Recommendations:

10. All financial institutions should adopt standard policies to prevent unreasonable freezes or holds on cheques. In the absence of such policies, they should be enacted in law.

11. No financial institution should freeze or hold any government-issued cheque where the customer is able to provide proper identification.

Financial institutions also need to ensure fair, polite and respectful treatment is given to all their customers, regardless of how much money they have. Our eyewitness account of banking in the Downtown Eastside of Vancouver shows that some banks simply do not believe in serving all their customers well.

To its credit, the Canadian Bankers Association has made special efforts to improve the training of bank employees in general and to help them understand the special needs of low-income customers. Member banks have worked with community groups in selected poor neighbourhoods such as the Jane-Finch area of Toronto and the Côte-des-Neiges area of Montreal.

Understanding the needs of low-income consumers is one of the themes running through a 12-minute video entitled "Making a Difference" that was produced by the association with the co-operation of Option consommateurs and the National Anti-Poverty Organization. The video notes that bank employees at one branch got a real eye-opener from a sensitivity training session that forced them to pose as people applying for welfare.

Recommendations:

12. Financial institutions should expand their efforts to train staff to be polite and sensitive to the needs of all consumers, including low-income consumers and consumers with special needs.

13. Financial institutions should adopt codes of conduct that provide severe sanctions against employees who do not treat customers with respect.

Finally, there is the issue of resolving complaints from people who are unhappy with the treatment they receive from a financial institution or with a specific policy or practice. As of early 1998, 12 Canadian banks had ombudsmen to help resolve customer complaints. The banks also support the office of the Canadian Banking Ombudsman as a kind of appeals forum for complaints that cannot be resolved within individual banks.

The Canadian Bankers Association says it makes sense to have ombudsmen employed by individual banks, because they should be able to resolve most complaints quickly and in a way that is not overly legalistic. That also makes sense to us. The larger issue involves the best way to resolve complaints at a higher level. Is it through a voluntary organization supported by the banks or through a government regulatory body that operates completely at arm's length from the banks?

The legal entity known as the Canadian Banking Ombudsman Inc. is governed by a board of directors made up of five senior bank executives and six independent directors. The board of directors approves the budget of the organization, and all member banks are required to pay their share of the total budget. The Ombudsman is hired by the board and can only be fired by the board if all the independent directors agree.

Canada's Ombudsman did a comparison of the role and authority of the office with its counterparts in other countries. In a report to the Task Force on the Future of the Canadian Financial Services Sector, the office concluded that the Canadian Banking Ombudsman has a structure that is equal to or better than any of the others. The board of directors has more authority, the Ombudsman is more secure, and the organization covers a broader range of banking

activities. The Ombudsman does not have the power to make a "binding" award against a bank, but the report said the banks had always accepted the office's recommendations and would likely continue to accept them in the future.[23]

One problem with the current system, in the view of the National Council of Welfare, is the relatively small number of complaints that go through the system at any time. In the quarter that ended July 31, 1997, bank ombudsmen received 999 complaints about services to individuals and 186 complaints from small businesses. The Canadian Banking Ombudsman received 17 complaints from individuals and seven from small businesses that were serious enough to result in investigations. Of the investigations that were concluded during the quarter, 42 percent of the personal complaints and 72 percent of the business complaints were not resolved to the satisfaction of both parties.[24]

Given the size of the financial sector, it seems clear that very few of the informal beefs of consumers are winding up as formal complaints. Many of the formal complaints are closed without really being resolved.

A second problem with the status quo is that there is no provision for promoting "class action" solutions. An individual complaint is just that. A bank may accept the recommendation of the Canadian Banking Ombudsman in one individual case and do nothing about similar dealings with other customers until the next individual complaint arises. A better alternative would be for the Canadian Banking Ombudsman to look for patterns that arise in the complaints it receives and to press the banks individually and collectively for changes in policy to address these broader issues.

A third problem is the fact that not all financial institutions have ombudsmen and not all of them support the work of the Canadian Banking Ombudsman. This reflects the fact that different levels of government are responsible for regulating different financial institutions.

Difficult as it may be to achieve, the National Council of Welfare would prefer to see a consumer advocate's office created by the federal, provincial and territorial governments to handle complaints about all Canadian financial institutions, from the largest bank to the smallest credit union. The office should operate independently of financial institutions, but it should be supported

by a levy or tax on their working capital. The office should have the power and the resources to handle class actions. And decisions of the office should be binding.

Recommendation:

14. The federal, provincial and territorial governments should create an independent consumer advocate's office to handle complaints from individuals, small and medium-sized businesses and community groups about financial institutions in Canada.

IV. GIVING CREDIT WHERE CREDIT IS DUE

Complaints about access to loans and credit are probably as old as Canada itself. Virtually every generation of Canadians had some kind of beef with banking institutions. The result is that the country's financial landscape has changed greatly over the years, even within the last several decades.

The alleged shortcomings of chartered banks typically led to the development of other types of financial institutions. Credit unions sprang up, beginning with the movement in Quebec founded by Alphonse Desjardins in 1900 and in Nova Scotia in the 1920s beginning at St. Francis Xavier University in Antigonish. Other alternatives included provincially run savings banks in Ontario and treasury branches in Alberta. Specialized financial institutions were formed to serve particular groups of Canadians who were having problems getting loans or lines of credit. The Ottawa Women's Credit Union, for example, was formed in response to complaints that other lending institutions in the national capital did such a poor job of serving the needs of women.

The shortcomings of the banks are also evident in the host of special programs and insurance schemes created by governments over the years to make lending to certain groups of Canadians safer or more profitable. Small businesses, businesses in underdeveloped regions of the country, university and college students, and homeowners with minimal cash for downpayments have all benefitted from these programs. Financial institutions benefitted as well, because governments agreed to cover all or most of their losses.

All these examples bring into question the willingness of banks to meet the needs of all the people they were chartered to serve without arm-twisting or promises of compensation by government. The complaint heard most often these days is not that different from the complaints heard in the early days of Canada: banks would prefer to spend their time serving their best customers.

The Canadian Bankers Association says most of the current complaints about the lending and credit practices of the banks are based on studies in the United States that have little relevance to Canada.

The reality is there is little solid evidence one way or the other about the way banks, trust companies and credit unions provide loans and credit to people living or working in poor, rural or remote communities.

This chapter makes the case for sweeping disclosure requirements covering the lending practices of all financial institutions in Canada as a first step to ensuring reasonable access to consumer loans, mortgage loans, business loans and lines of credit. It describes in detail the types of information financial institutions in Canada and the United States now provide to the public. And it looks ahead to the possibility of further action to correct problems that are found with current lending practices.

The situation in Canada is easy to describe because there is so little factual information available.

There is anecdotal evidence that most financial institutions do not go out of their way to drum up business in poor neighbourhoods. As discussed in the previous chapter, Option consommateurs has documented branch bank closings across the country, with detailed studies of closings in poor areas of Montreal, Calgary, eastern Ontario and Cape Breton and nearby parts of Nova Scotia.[25] The shortage of banking facilities in the Downtown Eastside of Vancouver is a long-standing complaint of local residents. Residents of the North regularly complain about poor access to banking services and the inability of branch banks - where they exist - to make their own decisions on local needs for credit.

A survey of small and medium-sized businesses by Thompson Lightstone and Co. Ltd. commissioned by the Canadian Bankers Association and the Canadian Chamber of Commerce in 1996 and 1997 showed that 69 percent of the 994 small and medium-sized businesses which borrowed money from one of seven banks were satisfied overall with their dealings. Ten percent were dissatisfied and the other 20 percent were neutral.[26]

The banks cite the Thompson Lightstone survey as proof that they are doing a good job. That conclusion depends on whether a disapproval rating of ten percent is considered good or bad. Surveys by the Canadian Federation of Independent Business suggest many of their members have long-standing misgivings about the service they get from their lending institutions.[27]

The bankers association publishes statistics on loans to small and medium-sized businesses every quarter. The reports include information by region, plus information for metropolitan Toronto, northern and eastern Ontario, southwestern Ontario, most provinces individually, and Atlantic Canada. There are cross-tabulations by the size of the loans and by industry. Many of the statistics are presented for seven individual banks as well as all seven together.[28]

Unfortunately, there are three huge gaps in the data:

- All the data relates to applications for loans and credit that were approved. There is nothing about applications that were turned down.

- There is nothing on local lending activity. Even the data for metro Toronto are not presented by neighbourhood, so it is impossible to know whether the loans that were approved were reasonably distributed among different parts of the region. There is nothing on Montreal, much less the poorer East End of the city, and nothing on Winnipeg, much less the area around North Main Street.

- There is nothing on consumer loans and mortgage loans.

The United States took steps to fill these kinds of gaps many years ago. The Home Mortgage Disclosure Act requires some 10,000 U.S. financial institutions to disclose how many people apply for a mortgage loan, how many are approved, and how many are rejected. The data are reported by race, sex, income range and neighbourhood. The information is readily available at every branch bank.

The same kind of data for small business loans, farm loans and consumer loans is available under the terms of the Community Reinvestment Act.

The two laws and other U.S. federal legislation arising out of the civil rights movement and the War on Poverty in the 1960s were aimed at eradicating the practice of "red-lining" poor communities and communities where most residents are members of minority groups. With red-lining, a financial institution figuratively or literally draws a red line on the map around a community and refuses to serve its financial needs.

The requirements of U.S. law are very strict. Under the Home Mortgage Disclosure Act, financial institutions must collect a host of statistics concerning applications for housing-related loans, from mortgages to home improvement loans. Each branch must keep "disclosure statements" and must make them available within three business days of a request.

The information in the disclosure statements includes:

- loan applications, approvals and rejections in each census tract;

- information on the race, gender and income range of applicants and the disposition of their loan applications;

- reasons loan applications were turned down, such as high debt-to-income ratio, poor employment history, poor credit rating, insufficient collateral or cash, unverifiable information or inability to get mortgage insurance; and

- information on the racial and income composition of the census tract where the properties are located.

Incomes are measured according to the median income of the surrounding metropolitan area. The ranges typically used in reporting are less than 80 percent of median income, 80-99 percent of median income, 100-119 percent of median income, and 120 percent or more of median income.

One analysis of mortgage lending practices in 16 large metropolitan areas found 49 mortgage lenders which excluded or under-served minority neighbourhoods. Table 2 on the next page shows the findings for 1991 for six lenders in Atlanta, Georgia.[29]

Minority neighbourhoods are defined as census tracts where members of minority groups - mostly Blacks in the case of Atlanta - make up 75 percent or more of the population. White areas are census tracts where Whites make up 75 percent or more of the population.

Sears Mortgage Corporation, shown on the first line of Table 2, had 0.4 percent of the mortgage business in minority neighbourhoods and 3.2 percent of the market in White neighbourhoods. Its market share was eight times larger in White communities, and that is why its lending pattern was rated a "worst case."

Gulf States Mortgage Company, on the bottom line of the table, had 16.2 percent of the market in minority areas and 2.9 percent in White areas. It was rated as having an "affirmative lending" pattern - a U.S. term for institutions which do reasonable levels of business with members of minority groups.

TABLE 2

MORTGAGE-LENDING PATTERNS IN ATLANTA, GEORGIA, IN MINORITY AND WHITE AREAS, 1991

Lending Institution	Rating	Market Share in Minority Areas	Market Share in White Areas
Sears Mortgage Corporation	Worst Case	0.4%	3.2%
Entrust Funding Company	Worst Case	1.0%	3.5%
Decatur Federal Savings and Loan	Worst Case	2.4%	4.0%
Griffin Federal Savings Bank	Worst Case	0.9%	3.1%
Prudential Home Mortgage Company	Worst Case	0.0%	2.2%
Gulf States Mortgage Company	Affirmative Lending	16.2%	2.9%

Market shares are the single best measure of a financial institution's attitude to minority communities, according to the authors of the study, because they take account of the fact that the number of mortgage loans or the size of typical loans may be smaller in minority neighbourhoods.

The same kind of analysis could be done in Canada using data collected by financial institutions and reported to government, and data from individual census tracts about the incomes of residents. This kind of analysis would show definitively how serious our financial institutions are about their obligation to serve all customers. It would be particularly well suited to Canada, because it would look at all branches of institutions, regardless of where they are located. It would cover "virtual" banking activities in the case of institutions which operate electronically without having a physical presence in the community.

The key question to be answered would be: how does the market share of loans made by each institution in well-to-do neighbourhoods compare with its market share in low-income neighbourhoods? Armed with the results, governments would have a precise idea of the extent of any problems and would be in a position to deal with them.

If it turns out that discrimination against poor neighbourhoods is not a widespread problem, governments might choose to impose particular sanctions on an offending institution. If discrimination against the poor turns out to be rampant, more sweeping measures would be necessary.

Normally, we would recommend that financial institutions be required to disclose mortgage lending statistics for all four categories of people covered by the federal Employment Equity Act: women, Aboriginal people, people with disabilities and members of visible minorities. However, it is clear that women are the only one of the groups that is large enough to allow for the collection of information by census tract. The three other groups are relatively small and their right to privacy would be compromised if information were available by census tract.

Information on both consumer and business loans has to be disclosed under the U.S. Community Reinvestment Act. Many of the recent disclosure statements of financial institutions are available on the Internet web site of the U.S. Comptroller of the Currency, the agency which oversees the legislation.[30]

The vast majority of the financial institutions with statements available on the Internet received satisfactory ratings. A few institutions were rated outstanding, and a few were rated less than satisfactory.

The amount of detail provided in the evaluations puts Canadian banks to shame. The 1997 evaluation of the Bank of America, for example, is 282 pages long and provides statistics for the bank as a whole and each of the ten states where it has branches. The bank's overall rating for the period was "outstanding."

Table 3 gives an overview of the bank's small business lending operations in census tracts of low or moderate income - areas where income levels were less than 80 percent of the median family income for the surrounding areas. Small business loans are loans with original amounts of less than $1 million, but about 90 percent of the loans in the table were actually for amounts of less than $100,000.[31]

TABLE 3

BANK OF AMERICA SMALL BUSINESS LOANS FOR THE 18 MONTHS THAT ENDED JUNE 30, 1997

	Market Share Overall	Market Share in Areas of Low and Moderate Income
Alaska	1.30%	1.83%
Arizona	16.24%	18.03%
California	16.33%	16.91%
Idaho	1.59%	1.32%
Illinois	0.23%	0.25%
Nevada	15.73%	18.49%
New Mexico	3.87%	3.82%
New York	0.01%	0.01%
Oregon	4.46%	5.36%
Washington	15.00%	13.48%

In six of the ten states shown in the table, the Bank of America's share of business loans in census tracts of low and moderate incomes was higher than its market share in all census tracts. The bank's performance was notably strong in California, which accounted for nearly two-thirds of the total of the bank's small business loans in all states. The three exceptions were Idaho, New Mexico and Washington. The figures for New York are not significant because of the tiny volume of business the bank did in the state.

The information in Table 3 is a small portion of the information reported by the bank. Detailed information is also available for residential loans, automobile loans, home equity loans, other consumer loans, credit cards and community development loans. Data in all these categories are available for the bank as a whole and for areas within each of the ten states where the bank operates.

The disclosure statements under the Community Reinvestment Act also summarize branch bank openings and closings and their overall impact. In the case of the Bank of America, the bank closed 110 branches (30 in areas of low or moderate income) and opened 81 new branches (nine in areas of low or moderate income) during its latest period of evaluation. However, investigators concluded that the distribution of branch banks still compares favourably to the demographics of the areas that it serves. In other words, poor neighbourhoods were not adversely affected by the closings.

The Bank of America is a good illustration from a Canadian perspective, because it is a very large institution with many branches in ten different states. The disclosure statement shows that it is feasible to collect and publish detailed information on the operations of large banks, and that the information is extremely useful in assessing how good a job they are doing in any particular area for any type of banking activity.

The shortcomings revealed in the disclosure statements of U.S. institutions often serve as a trigger for community action. Local groups can mount a protest against the practices of a particular lending institution, and they may wind up negotiating agreements with the institution for new community lending programs.

In Chicago, a city with a long tradition of community action, local groups negotiated agreements to channel more than $175 million in loans to low-income parts of the city in the 1980s. Evaluations done in Chicago and other major U.S. cities suggest that the legislation, and agreements negotiated because of the legislation, had a sizable impact on housing loans, but less of an impact on small business loans. Part of the problem with small business loans is there are not enough viable businesses in many poor neighbourhoods. The act does not require banks to make loans to shaky businesses. Neither does it provide any direct help to make local businesses stronger.[32]

As with the Home Mortgage Disclosure Act, the kind of information collected under the Community Reinvestment Act would be extremely useful to have for Canadian financial institutions. It would answer definitively the question of how well our chartered banks serve different neighbourhoods as well as different regions of the country. It would also provide a benchmark for comparing the performance of trust companies or credit unions with the performance of the largest banks.

If financial institutions are as good as the industry claims, this kind of information would be proof positive. If they really do not measure up to their rhetoric, the information would warn consumers and governments alike that remedial action needs to be taken.

Recommendations:

15. The federal government should enact legislation to require banks and other institutions under its control to publish detailed information on housing and consumer loans and loans and lines of credit to small and medium-sized businesses. The information for personal loans should include applications, approval and rejections, and should be available in each census tract by the sex and income class of applicants. The information on business loans should be available by census tract and the type and size of businesses.

16. Provincial governments should pass legislation similar to the proposed new federal legislation to govern trust companies and credit unions under their jurisdiction.

V. THE URGE TO MERGE

Canadians got a rude awakening on Friday, January 23, 1998, when the Royal Bank of Canada and the Bank of Montreal announced plans to merge. The announcement did not come as a complete surprise, but the timing and the motives of the banks were ominous. For one thing, the plans were announced eight months before the federally appointed Task Force on the Future of the Canadian Financial Services Sector planned to publish its final report and recommendations. For another, the banks waited until the last possible moment before they made the obligatory courtesy call to the federal Minister of Finance.

The chairman of Toronto-Dominion Bank was among the early critics of the merger. "You never know the way of the world, but we don't expect to be merging," he said. "I find it difficult to understand how a bigger bank will be more productive and offer better service to its clients."[33]

Not even three months later, T-D Bank and the Canadian Imperial Bank of Commerce announced their own merger. Of the so-called Big Six chartered banks, only the Bank of Nova Scotia and the National Bank of Canada were left.

If the mergers go ahead, the Canadian financial sector would be dominated by two "mega-banks" with a stranglehold on the industry. One of the mega-banks would control nearly 39 percent of the banking sector and the other about 37 percent. The Royal Bank of Canada and the Bank of Montreal combined would be the 22nd largest financial institution in the world, with 85,000 employees, assets of $453 billion, and annual profits of $3 billion.[34]

The National Council of Welfare can see no public good arising from the banks' current obsession with mergers, but it does fear that poor people, poor communities, bank employees and even bank stockholders could feel the pinch if the merger plans are not blocked by the federal government.

The banks involved have put forward very little data to back up their arguments. Much of the urge to merge appears to be driven by bravado or greed rather than common sense.

Banks in Canada are already large compared to banks in many other developed countries. The largest banks already exercise great influence on the Canadian economy, and their influence has grown markedly in recent years. Banks have broken out of their traditional sphere and have extended their influence by buying trust companies, financial services and brokerage houses. The chartered banks took over some of the major brokerage houses following the first wave of deregulation. Bank customers were "naturally" steered to bank-managed mutual funds, guaranteed investment certificates and other investment vehicles. "They've taken over the industry over the last 15 years, and the brokers are finding it very difficult to compete," one analyst said of the remaining independent brokerage firms.[35] Meanwhile, banks continue to lobby to enter into automobile leasing and other questionable ventures.

Bigger banks also mean bigger salaries for the top brass and a bigger influence in both the world of finance and the world of politics.

The salaries and benefits enjoyed by senior banking officials are already far beyond the reach of most Canadians. The chief operating officers of all the Big Six banks and the Canadian Western Bank were on the list of the 100 best-paid Canadian CEOs as ranked by their total compensation in 1997.[36] The institutions employing the CEOs, the rank of CEOs in the top 100, and their total compensation were:

21. Bank of Montreal, $4,194,994

24. Bank of Nova Scotia, $3,461,535

30. Canadian Imperial Bank of Commerce, $3,186,200

31. Royal Bank of Canada $3,172,704

36. Toronto-Dominion Bank, $2,674,788

65. National Bank of Canada, $1,532,665

98. Canadian Western Bank, $924,283.

The amounts include salaries, bonuses, incentives, gains on stock options that were actually exercised, and other compensation during corporate fiscal years that ended in 1997. They do not include many millions of dollars in potential gains on stock options that were not exercised in 1997.

If the predictions of the banks themselves are to be believed, their influence and their net worth will continue to grow through competition in international markets. That in turn would justify even higher salaries and benefits for bank executives.

Meanwhile, the influence of banks on Canadian financial markets and Canadian institutions of government would grow to extreme limits. It is disturbing to hear financial analysts already raising questions about the ability of the federal government - the symbol of our democratic ideals as a nation - to block mergers of federally chartered financial institutions. If the Royal Bank of Canada and the Bank of Montreal are already beyond the control of the government which issued their charters, imagine what the mega-banks of tomorrow might do.

The financial clout of the big banks is already enormous. The Canadian Community Reinvestment Coalition calculates that the total assets of the five largest chartered banks as of October 31, 1997, were $1.05 trillion. That was more than three times the revenues of the federal, provincial and territorial governments combined, which totalled a mere $291 billion.[37]

Safeguarding the ability of government to govern in the public interest is clearly a prime reason for opposing bank mergers, but it is not the only reason. We believe that allowing mergers to proceed would add to all the concerns discussed earlier in this report.

One of the realities of life is that institutions cannot pursue more than a handful of priorities at any given time. It is as true for large institutions as it is for small ones, and it is as true for banks and other businesses as it is for governments. Every time a board of directors or a cabinet sets a new priority, something else inevitably gets shunted aside.

In the case of the proposed bank mergers, the priority is clearly to get more intimately involved in international business and finance. If all the potential for growth is in foreign markets, any aspiring bank executive would be crazy not to sign up for that part of the business. With most

of the new corporate talent and corporate energy devoted to international operations, the domestic side of banking would become positively dreary. Worthwhile ventures such as access to banking for poor people or new ways to develop poor neighbourhoods would get even less attention than they now do.

A commentary on the merger proposals published by the C.D. Howe Institute concludes that better or lower-cost banking services are possible only if banks can reduce their costs - in part by laying off staff and closing branches - and if the government permits more foreign and domestic firms into the banking business in Canada.[38] The National Council of Welfare has major misgivings about both of those preconditions.

Analysts estimate that job losses directly related to the mergers would be in the tens of thousands, and even the banks refuse to commit themselves to minimizing losses. The chairman of the Bank of Nova Scotia and the chairman of the National Bank of Canada both predicted job losses in the order of 65,000 if the Big Six banks turn out to be the Big Three.[39]

Banks and their subsidiaries employed about 221,000 people in 1997. Job losses of 65,000 would represent 29 percent of the total employment in banking.

For the record, there have been many complaints about the employment policies of banks over the years, most notably their treatment of women employees. The Canadian Bankers Association submission to the Task Force on the Future of the Canadian Financial Services Sector says banks have made good progress in promoting women and members of visible minorities during the past decade. Progress in hiring and promoting people with disabilities and Aboriginal people has been slower.[40]

On the other hand, reports under the Employment Equity Act show that banking has long been the worst of all the federally regulated industries when it comes to the salaries of women. Women working full time in banking earned only 59 percent of the earnings of men in 1993. The comparable figure for all full-time workers in Canada was nearly 75 percent.[41]

Additional branch closings resulting from the mergers could be disasterous for poor communities and communities in rural and remote areas of Canada. A recent study by Option

consommateurs showed that 58 percent of the 2,573 communities which have banks or other financial institutions have only one institution. Nearly 77 of the 2,573 communities have no more than two financial institutions.[42]

Table 4 gives the breakdown in 1997 for the Atlantic provinces combined, the rest of the provinces individually, and the territories combined. There were a total of 1,504 communities with only one financial institution: 477 communities had one bank and the other 1,027 had one credit union or one other kind of financial institution.

There were 470 communities with only two financial institutions. Seventy-nine communities had two banks, and the other 391 communities had one bank and one credit union or some comparable combination.

TABLE 4

COMMUNITIES WITH ONE OR TWO FINANCIAL INSTITUTIONS, 1997

	One Institution Only			Two Institutions Only		
	Total	One Bank	Other	Total	Two Banks	Other
British Columbia	53	20	33	27	6	21
Alberta	66	40	26	42	2	40
Saskatchewan	186	26	160	74	0	74
Manitoba	95	27	68	36	0	36
Ontario	257	206	51	92	43	49
Quebec	639	37	602	142	6	136
Atlantic Region	204	117	87	55	20	35
Territories	4	4	0	2	2	0
Total	1,504	477	1,027	470	79	391

The table shows just how vulnerable these communities would be to further branch closings. Ontario and Atlantic Canada could be particularly hard hit because of the many communities that are served by banks only. Other provinces, notably Saskatchewan and Quebec, have relatively large numbers of credit unions.

Next, there is the question of shareholders. Aside from corporate executives with stock holdings who would be in line for higher salaries, it is difficult to imagine why "ordinary" Canadians who own bank stocks would be enthusiastic about a shift to international operations.

Almost all the expertise of Canadian banks is directed to operating in Canada. They know the economy, they have learned how to operate within the very detailed regulatory framework set by governments, they know the local business customs and practices, they speak the languages of their customers, and they have the practical knowledge needed to sort out the good financial risks from the bad.

It is doubtful that any of these advantages could be easily exported to new operations in other countries. Even if Canadian banks spent huge sums of money to acquire foreign business intelligence and to recruit new staff overseas with language skills and expertise in particular foreign markets, they would still find themselves competing against institutions which are already well established in their home countries. All other things being equal, the advantage lies with the home team. The visitors could find themselves left to compete for ventures that were too risky for the home-town banks to handle.

The possibility of losses as well as gains in overseas operations has to be taken seriously. Even in Canada, where banks are supposedly closely regulated, banks sometimes fail. The Canadian Commercial Bank of Canada and the Northland Bank went after large and relatively risky loans in the resource and real estate industries in western Canada in the 1970s. They ran into trouble in the wake of the recession of 1981-82 and a fall in world oil prices and eventually failed in the mid-1980s. Poor lending and accounting practices and poor supervision all contributed to their demise.[43]

International loans could be every bit as risky, and the regulation of banks by foreign governments could be less stringent. If a Canadian bank ran into financial troubles overseas, who

would come to its rescue? In the end, Canadians would pay the price for any banking misadventures abroad.

John S. McCallum, a professor of management at the University of Manitoba, has raised other questions that he believes should be answered before the federal government makes up its mind about the mergers.[44] Among the questions are the following:

- If the two mergers proposed in 1998 go ahead, what future mergers should be allowed? How would Canadians feel about a merged Royal Bank-Bank of Montreal being bought out by a U.S. mega-bank?

- How would governments regulate banks with international operations? What would happen if Canadian regulators have fears about practices that the mega-banks say are needed in order to compete internationally?

- What will happen to domestic business credit as banks get bigger and more international? What would happen to a Canadian business which gets on the wrong side of its bank?

- What would happen to Canadian monetary policy, one of the federal government's main levers for controlling the economy, with Canada's money supply concentrated in two or three mega-banks?

"Public policy decisions of this magnitude need more than intuition," he concludes, "They need a considered deliberative process; they need data, analysis and discussion; they need time for clarity to emerge."

The National Council of Welfare agrees with that assessment and urges the federal government to refrain from any hasty decision on the mergers.

Recommendations:

17. The federal government should not approve any bank mergers unless it is absolutely convinced that the case for mergers is compelling and absolutely certain that all the questions about the mergers and their adverse effects on Canadians have been fully addressed.

18. If, after thorough study, the federal government is uncertain about the impact of proposed bank mergers, it should err on the side of caution and disallow the mergers.

CONCLUSION AND SUMMARY OF RECOMMENDATIONS

Canadian banks and other financial institutions no doubt do a good job in many of their areas of activity. When it comes to serving the needs of poor people, however, their record is lots of talk and not much action.

The largest banks in Canada still find it impossible to live up to their own long-standing commitments to provide ready access to services to poor people on reasonable terms. The closing of branch banks in many poor neighbourhoods is a silent, but compelling reminder of their tenuous commitment to serving poor people.

The detailed recommendations in this report about the identification a person needs to open an account or cash a cheque and all the other recommendations related to access to services should be viewed as first steps that need to be taken by banks and other financial institutions. If they are not taken voluntarily - and quickly - we believe the federal and provincial governments should intervene and force the institutions under their control to live up to their obligations.

Our recommendations about the disclosure of detailed information on loan applications, approvals and rejections are also first steps that should be taken without delay. We are not convinced that banks and other institutions will take our recommendations seriously. If they do not, we expect governments to step in without delay.

Finally, we are looking to the federal government to safeguard the interest of all Canadians in addressing the merger proposals put forward by the Royal Bank of Canada, the Bank of Montreal, the Canadian Imperial Bank of Commerce and the Toronto-Dominion Bank. We have seen big Canadian banks swallow up trust companies and brokerage houses in recent years, and we do not believe Canadians are any better served because of the concentration of power and resources that resulted from these earlier mergers and acquisitions. One of our concerns about the latest proposals is the likelihood of major job losses. Another is branch bank closings in poor, rural and remote communities.

Whatever happens with the mergers, we expect the federal government to use every means at its disposal to ensure that the financial needs of Canadians come first. That means fair and reasonable service to all Canadians wherever they live and whether they are rich or poor. The single-parent mother cashing a welfare cheque and the retired person getting the Guaranteed Income Supplement have a right to the same polite service as the upwardly mobile couple buying a new condominium or the business person trying to arrange a multi-million-dollar deal in Singapore.

SUMMARY OF RECOMMENDATIONS

1. Banks and other financial institutions should stop making excuses and take immediate steps to guarantee that head office policies on access to banking services are followed by all branches. Financial institutions should not tolerate deviations from head office policies on the types of identification needed to open an account or cash a cheque.

2. Federal and provincial governments should do periodic spot checks to make sure that financial institutions live up to their commitments to have reasonable identification requirements for people to open accounts or cash cheques.

3. All financial institutions should have public information bulletin boards displayed prominently in all their premises that explain their policies on identification, service charges, interest rates on deposits and loans, procedures for resolving complaints and other issues of interest to customers. All the information posted on the bulletin boards should be written in understandable, everyday language.

4. Provincial and territorial governments should allow the use of public health insurance cards as an acceptable way of establishing a person's identity outside of the health care field.

5. The federal government should review its money-laundering regulations to make sure that they do not interfere with the banking rights of ordinary Canadians.

6. To ensure reasonable service in all parts of Canada, the federal government should impose a moratorium on the closing of branch offices by banks and other financial institutions under its control. The moratorium would be lifted in individual cases only when the federal government is convinced that an area is adequately served by other financial institutions.

7. Financial institutions should arrange for extra tellers and extend their normal business hours to meet the need for additional services on days when government cheques are issued.

8. Governments and financial institutions should promote the use of direct deposit of government cheques as a service to Canadians, but direct deposit should not be mandatory.

9. Banks and other financial institutions should offer no-frills accounts that provide a minimum of 16 basic banking transactions for a monthly fee of $2. Basic transactions would include deposits, cash withdrawals, bill payments and cheques or electronic debits. There should be no minimum monthly balance requirements for no-frills accounts.

10. All financial institutions should adopt standard policies to prevent unreasonable freezes or holds on cheques. In the absence of such policies, they should be enacted in law.

11. No financial institution should freeze or hold any government-issued cheque where the customer is able to provide proper identification.

12. Financial institutions should expand their efforts to train staff to be polite and sensitive to the needs of all consumers, including low-income consumers and consumers with special needs.

13. Financial institutions should adopt codes of conduct that provide severe sanctions against employees who do not treat customers with respect.

14. The federal, provincial and territorial governments should create an independent consumer advocate's office to handle complaints from individuals, small and medium-sized businesses and community groups about financial institutions in Canada.

15. The federal government should enact legislation to require banks and other institutions under its control to publish detailed information on housing and consumer loans and loans and lines of credit to small and medium-sized businesses. The information for personal loans should include applications, approval and rejections, and should be available in each census tract by the sex and income class of applicants. The information on business loans should be available by census tract and the type and size of businesses.

16. Provincial governments should pass legislation similar to the proposed new federal legislation to govern trust companies and credit unions under their jurisdiction.

17. The federal government should not approve any bank mergers unless it is absolutely convinced that the case for mergers is compelling and absolutely certain that all the questions about the mergers and their adverse effects on Canadians have been fully addressed.

18. If, after thorough study, the federal government is uncertain about the impact of proposed bank mergers, it should err on the side of caution and disallow the mergers.

APPENDIX

A CASE STUDY: FOUR CORNERS COMMUNITY SAVINGS

This case study describes a unique Canadian financial institution, Four Corners Community Savings of Vancouver. The bank was created by the New Democratic Party government of British Columbia to serve the needs of low-income people in the area known as the Downtown Eastside and to attract capital for housing and other community investment projects.[45]

Four Corners has been operating for just over two years. Given its ambitious aims, it is too soon to measure its impact and too soon to be able to say whether it can serve as a model for other communities. This study does attempt to identify some of its major strengths and weaknesses to date.

Four Corners officially opened on the corner of East Hastings and Main Streets on April 15, 1996. In his opening day speech, Premier Glen Clark noted some of the specific problems that convinced his government to set up the bank:

- Too many residents were forced to do without basic banking services because they lacked sufficient identification.

- Too many people were going to cheque-cashing services and paying too much to cash their cheques.

- Too many people were carrying around large sums of money after cashing their cheques, a practice that the Premier said discouraged responsible money management and encouraged crime.

Four Corners operates under the umbrella of the B.C. Community Financial Services Corporation, a creation of the provincial government. The purpose of the corporation is to provide a full range of financial services to the inner city of Vancouver. The corporation has a government-appointed board of 11 directors. The first chairperson of the bank was Jim Green,

who had previously been a community organizer and executive director of the Downtown Eastside Residents Association (DERA). Indeed, to some people, Four Corners Community Savings is "Jim Green's bank."

There is also an advisory council of not more than seven depositors "to ensure the community interest is served" by receiving complaints and making general policy recommendations to the directors. Three of the directors must be nominees of the community council.

The authorized share capital of $10 million is held by the B.C. Minister of Finance and Corporate Relations. The bank's three-year business plan must be approved each year by Treasury Board.

Deposits at the bank are guaranteed by the province up to $2 million for incorporated Aboriginal or religious organizations, Aboriginal bands or tribal councils, registered charities, unions, the Crown, a pension plan of any of the above, a public body or an employee benefit plan. All other deposits are guaranteed up to $100,000.

The province provided a start-up payment of $5 million and another $1 million for renovations and operating funds from the B.C. 21 Fund. A old Bank of Montreal building in the heart of the Downtown Eastside was purchased for $900,000 by the Ministry of Housing and extensively and carefully renovated.

On a fall day in 1997 when welfare cheques were issued, Four Corners dealt with 1,000 recipients. Customers are invited to take a ticket with a number. They can then choose to wait in the bank or return later. Unlike most other area banks, there is no security guard. The new general manager noted that on that day, his first Four Corners "Welfare Wednesday," there were no serious incidents. There was shouting by a customer with a mental health problem, but the staff dealt with the person sensitively.

The interior of the bank includes many features that the community requested and that other financial institutions do not have: community meeting space, a washroom, access for people with

disabilities, free telephone, free coffee and chairs for people waiting on busy days. The furniture was provided by the Vancouver City Savings Credit Union.

The bank's services include an identification card with a photograph that is provided free to welfare recipients who open an account. The photograph and signature are scanned into the account record and can be called up by tellers on the bank's computer screens in cases where customers forget to bring in their ID cards. Replacement cards cost $10.

Four Corners currently offers chequing and savings accounts, chequebooks, term deposits and free money orders for rent payments by welfare recipients.

The bank was created by the province to serve the needs of one of the poorest urban neighbourhoods in Canada. The project was a reflection of the provincial government's long-standing concern about the future of the area. It was also a monument to the inability of more conventional financial institutions to serve the community.

Four Corners Community Savings now occupies the sturdy stone edifice built in 1927 to house the Bank of Montreal. To a casual observer, the building still seems to exude some of the aura of its past commercial respectability, even though it is not a place where most people from outside the area would choose to tarry for long.

Diagonally opposite the bank on the southwest corner of East Hastings and Main stands another historic building, the Carnegie Centre. The centre provides daily shelter and programs for a large and ethnically diverse group of the area's residents and the many poor, sick, addicted, unemployed and homeless people who congregate in the area and spill out over its front steps day and night.

Conveniently located almost next door to Four Corners is the large and busy headquarters of the Vancouver City Police and the local jail and courthouse.

Three to four blocks to the north, east, and west are the many hotels and rooming houses that provide the housing known as SROs (single room occupancy) of the majority of the area's single male residents. In 1996, there were also 47 establishments with liquor licences (more than

a quarter of the number in the city), a few churches and missions, several social and health service agencies, three community centres, law practices, and a few small retail businesses and restaurants. All of these are ringed by desolate areas of boarded-up store fronts, pawn brokers and second-hand shops.

To the south of the Downtown Eastside lie the busy street markets and relatively prosperous Chinatown with a high concentration of banks in a few city blocks. However, the Vancouver suburb of Richmond, not Chinatown, is now the business and residential centre for many people of Chinese ancestry.

Threaded through the Downtown Eastside are social housing projects, mostly created through the determined and militant efforts of area residents. A few blocks further north and east is an area of modest duplexes and single-family homes. All around, pressing ever closer, are the encroaching signs of "gentrification" - artists' lofts, condominiums, tastefully renovated working-class homes and new high-rise buildings.

Incomes in all areas of the Downtown Eastside are very low. The median household income in 1990 was $10,586 compared with the City of Vancouver's median income of $34,174. The poverty rate in 1991 was 73.4 percent, compared with 24.8 percent for all of Vancouver.[46]

These statistics do not show what some of the people interviewed for this study believe: that a younger, more desperate population has emerged in recent years. This is the result of high unemployment, low welfare rates giving less choice of shelter, the de-institutionalization of mental patients, and an increase in the drug trade.

An influx of people seeking employment from other provinces swelled welfare roles in the mid 1990s. Many were cut off from welfare for several months by a residency requirement imposed by the provincial government. Many ended up destitute, according to anti-poverty advocates such as End Legislated Poverty.

Men outnumber women by about two to one. One reason for the disparity is that the many old hotels with their single rooms and shared bathrooms and kitchens have traditionally been the

last refuge of aged, disabled former resource workers. They are not considered to be safe for women.

In the past decade, the area has also become home to many hundreds of people with mental health problems as a result of the "downsizing" of mental health facilities. The major mental health hospital for the province located just outside the city limits reduced the number of patients from 5,000 to 659 between 1987 and 1997.[47]

There has long been a visible and often destitute group from the large Aboriginal population of Vancouver who use the bars in the area as meeting places.

In September 1997, a medical emergency was declared by the Vancouver/Richmond Health Board because of the extremely high incidence of drug users who were HIV positive. Vancouver researcher Penny Parry estimated that there were some 1,500 HIV positive people living in or near the area - close to ten percent of the population of the Downtown Eastside.[48] The people most at risk were those with unstable housing, Aboriginal people, women in the sex trade, people with chronic mental illnesses and young people.

The Downtown Eastside also has a very high level of crime. Its "epicentre" and the "worst crime block in Canada" is the intersection of Main and East Hastings, the location of the Four Corners bank, according to an article in the Vancouver Sun by two police officers who walked the beat for eight years.[49]

Efforts to get better financial services in the Downtown Eastside date back at least 20 years prior to the opening of Four Corners in 1996. None of the previous attempts met with any sustained success.

The Royal Bank of Canada operated a "community" bank in the Downtown Eastside from 1976 to 1985.[50] A bank pamphlet entitled "Social Responsibility is Everyone's Business" says the rationale for community banking came out of a 1970 executive conference. The conference was held to plan community involvement to be more meaningful and to institute a "social audit" as a supplement to the traditional financial audit to monitor corporate social action.

In Vancouver, the Royal Bank set up an advisory committee and worked with the community for a year to decide on the location and type of branch to establish. When the branch opened in 1976, it was very successful in attracting people to cash their welfare cheques, and no fee was charged to do this. People were encouraged to have their cheques mailed to the branch for deposit and they did so. There was no commercial teller, and the larger term deposits and mortgages were transferred to other branches. The community branch made small mortgage loans for "non-conforming" houses, or houses with less than the 900 square feet required by most mortgage lenders at the time.

The branch also made small loans to individuals and worked with the Downtown Eastside Residents Association in the first few years providing advances on income tax refunds. Together they almost eliminated the private tax discounters in the area who charged a significant portion of tax refunds as fees. They also had an advisory board of directors from the community. However, despite efforts to attract the broad community, the branch became primarily a welfare cheque cashing office for single men where some people, particularly women, did not feel safe. The branch eventually closed because it was losing money.

A former branch manager and others have suggested that the U.S. Community Reinvestment Act could serve as a model to ensure that banks reinvest in local communities. Where there is a high concentration of people with low incomes, the success of community banks should not be measured simply by profit or self-sufficiency.

A second initiative in the Downtown Eastside arose from contacts in 1987 between DERA's Jim Green and Social Services and Housing Minister Claude Richmond.[51] DERA was funded in 1988 to operate a cheque deposit service, which was called the Downtown Deposit Project, with the Carrall and Hastings branch of the Bank of Montreal. Initially at least, the service operated with referrals from Ministry of Social Services workers.

The DERA initiative started as a small pilot project funded in instalments by the Ministry of Social Services. A current DERA staff member recalled that the annual budget of the project was around $80,000. More permanent funding from the Ministry became available and was announced in a news release on November 16, 1988.

The DERA files used in this study related only to the first two years of the project. They show that frequent discussions took place with senior staff of the Ministry of Social Services and Housing around issues such as bank service charges and the Ministry's refusal to pay service charges for welfare recipients. Other documents in the DERA files indicate that the project got off to an inauspicious start with social workers, who were angry that they had not been informed by senior staff about the project.

The main goals of the Downtown Deposit Project were to reduce the time residents spent in bank lineups, to cut down on crime by reducing opportunities for muggings and strong-armings, to make cheque-cashing less of a problem for residents, and to assist residents in obtaining proper identification.[52]

At first, the project received a good degree of support from the Bank of Montreal. By the latter years of the project, contact with DERA was negligible. The manager of the branch in the two years before it closed was adamant that he had not heard of the DERA project. He said the branch's practice was to deal directly with welfare recipients and their case workers if necessary.

The Hastings and Carrall branch was closed in early 1997 because business had almost come to a standstill. The safety of employees was another consideration in the closing of the bank. The increasing level of open drug use and drug dealing made staff members, particularly women staff members, feel unsafe.

Three credit unions were approached by Jim Green for the B.C. government in early 1993 as another possible way of providing financial services to residents of the Downtown Eastside. However, they were rejected as an option fairly early - to the surprise of at least one interested credit union, the Community Congress for Economic Change, that was prepared to conduct a feasibility study with the Vancouver City Savings Credit Union.[53]

The rationale for rejecting credit unions apparently was that they were not deemed to be responsive or flexible enough to address the special needs of the community. The C.C.E.C. was considered too small, and VanCity required members to buy a share for $50. Credit unions also have a different mind set, according to one government official, and are oriented to the individual rather than the community.

Sometime in 1993 or 1994, the government of British Columbia decided that a provincially incorporated bank was the answer. A study of banking needs was commissioned and completed by Ross Montgomery & Associates Ltd. in the early spring of 1993. The study's terms of reference suggest that a free-standing financial institution was already being contemplated, although it might not have been the first option. The government files reviewed suggest that consultations with residents of the Downtown Eastside in 1994 occurred after a decision was made to proceed with the initiative but before the actual enabling legislation for the Crown corporation was drafted.

Twenty-six community meetings were held from January to June 1994, some in the building that was to become Four Corners. By all accounts, the meetings were well attended and there was considerable public interest and support.

Some community residents, however, were opposed to the initiative from the beginning. At the forefront was the Downtown Eastside Residents Association, which was still involved with the Downtown Deposit Project. DERA's position was that their service filled the gap in advocacy and liaison and that government efforts should be directed to involving an existing credit union in providing banking services to the Downtown Eastside. DERA also argued that the money going to the proposed new financial institution should go directly to providing more affordable housing in the community.

A survey of the banking needs of businesses was conducted by Points of View Research and Consulting Ltd. It consisted of 229 telephone interviews with owners or managers of the estimated 1,000 businesses and organizations in the area. Chinatown was excluded from the survey because there were already many financial institutions serving the Chinese community.

The main purpose of the survey was to determine the potential of a new financial institution for gaining accounts from local businesses. Reviewing the conclusions, Ross Montgomery was very doubtful about the potential for attracting local businesses.

"Convincing commercial customers to switch financial institutions is difficult in the best of times," said the report. "Asking them to switch to a new institution without a full range of services and with unknown management when the institution has the primary goal of providing banking services to residents will make this job extremely difficult. Based on this scenario, most

financial institutions would not open a branch in this area. This fact is borne out by the number of closures of financial institutions."[54]

The needs assessment of residents for banking services presented a very different picture. Forty-four percent of 358 survey respondents said the main reason for not having a bank account was lack of proper identification. Just under half of the respondents used a Money Mart cheque-cashing service. A smaller proportion used a pub or hotel to cash their cheques. The vast majority - 84 percent of those surveyed - said they would consider supporting a community bank by opening an account there.

Ross Montgomery said it was evident from the survey that banking services were limited in the area, but that residents do not have much money to leave in a financial institution. Any balances would be small and only left in the bank for short periods of time.

There was also an informal survey of the Aboriginal community. The authors found a high level of support. They recommended that an Aboriginal person be recruited to serve on the board of directors, that Four Corners build a First Nations/Aboriginal Strategy to obtain deposits of Treaty monies, and that the bank train and employ First Nations workers.

Ross Montgomery talked to union leaders, pension plan administrators, and union financial advisors to explore the potential of these groups becoming depositors, since unions have strike funds and pension plan funds. The reaction was mixed. The union leaders and pension plan administrators were not encouraging. However, the union financial advisors felt that with a government guarantee and market rates, the institution could attract $35 million to $100 million in deposits for social projects.[55]

Looking back on the first year or so of operations, it is clear that Four Corners has attracted a substantial amount of business from residents of the Downtown Eastside and provided a very modest number of jobs for residents. On the other hand, the initial figures on the bank's finances are worse than expected, and the bank has yet to do more than a token amount of lending, much less lending for the purpose of community development. Management of the bank has also been an issue, with three different general managers in the bank's first two years.

The audited statement of Four Corners shows that it incurred a loss of $605,000 for the year ending March 31, 1997, its first year of operation. Together with a prior deficit of $208,000, it had a cumulative deficit of $813,000 by March 31, 1997. At the same time, it had $4.65 million in deposits.

Although the business plan did not provide for a profit until 2001, the deficit was larger than anticipated. The reason, according to an interim manager, was the large number of small accounts, almost 90 percent of them opened by welfare recipients and not subject to any bank charges. The number of small accounts as of March 1997 was about 3,000. The initial business plan called for only 1,000 accounts in the first year.

Twelve workers were trained and hired to work at Four Corners. One is a full-time supervisor. Some staff are full-time, and others are part-time customer service representatives. The staff is unionized. Three of the workers said in a focus group that they were happy with their training and their work and can identify with customers. There is one custodial service position.

There may be other, less tangible benefits. Inasmuch as the banking service reduces muggings and the theft of welfare cheques, Four Corners may already have saved the province a considerable sum of money. According to a report prepared for the NDP caucus in 1994, $3.8 million is spent annually in the province replacing lost or stolen welfare cheques. Other savings could come from reduced requirements for police, ambulance, fire, and other services.

Currently, Four Corners is not able to engage in lending activities except in a very restricted way. It made its first loan of $5,000 in the fall of 1997. Other banking services seem to be too limited for individuals, businesses and associations that are accustomed to a variety of services. There is also no secure parking in the area, a deterrent for busy or security-conscious customers.

The current business plan predicts that the Four Corners will lose another $754,000 before it makes a profit in 2001. Another $2 million out of the original $10 million government fund that Four Corners can access was made available in October 1997. That left $2 million that could be tapped if needed before the bank becomes self-sustaining.[56]

By October 1997, there had been three general managers. As the appointment of a new general manager was being announced in October 1997, Jim Green was quoted as saying, "We are in the process of restructuring and we need a new team to put it together." The outgoing general manager was quoted as saying that Four Corners needed a new chairperson with banking experience to replace Green.[57]

A comprehensive review of operations conducted in late 1997 by the new general manager and a consultant was expected to result in a new business plan, some internal structural changes and some re-thinking of the financial objectives of Four Corners and how it is marketed.[58] The goal of $100 million in deposits in five years was not considered by the new general manager to be feasible in today's market. More likely were $60 million to $70 million in deposits.

At this stage, opinions on Four Corners are sharply mixed. Some see the bank as a costly experiment that is unlikely to succeed. Others call it a bold and novel attempt to address the social and economic needs of people in the Downtown Eastside. Given the extent of these problems, they said, it is entirely appropriate for the government to intervene.

One continuing problem is that some key community organizers in the Downtown Eastside are unsure about supporting Four Corners. Some of the people interviewed for this study had concerns about the hastiness of the process used to set up the bank. There seemed to be a predetermined agenda for getting the bank up and running that precluded meaningful community participation and undermined support for the project.

Some people believe that an existing bank or credit union could have been subsidized to defray the high costs of handling small accounts and that specialized tellers could have been trained to work with a clientele that is admittedly sometimes difficult. Some see the existence of Four Corners as effectively taking money away from other projects in the community.

The expectation that Four Corners will become self-sustaining in the next five years seems to be dependent on the level of large deposits received and higher interest rates. The information reviewed and the people interviewed for this study suggest that the projected level of deposits may not be realistic. Interest rates are unpredictable, but are currently not expected to rise much. The goal of making a profit that could be re-invested in the community seems to have receded and to be further in the future than planned.

ENDNOTES

1. Task Force on the Future of the Canadian Financial Services Sector, Discussion Paper (Ottawa: June 1997), p. 1.

2. Same.

3. Association coopérative d'économie familiale (ACEF) du Centre de Montréal, The Highs and Lows of Access to Banking Services in Canada, Report to Industry Canada (June 26, 1996), pp. 16-22 and Appendix 1. The numbers and percentages in the text were taken from the raw data in the appendix.

4. Irena Zenewych, "Needs Assessment of Banking Services in Vancouver's Downtown Area," Report for Ross Montgomery & Associates Ltd., Aug. 17, 1993.

5. Canadian Bankers Association, "Access to Basic Banking Services," Fast Facts, August 1997. The phrases shown in quotation marks are the phrases actually used in the CBA publication.

6. ACEF, pp. 45-46.

7. Same, p. 32 ff. and Appendix 2.

8. Same, p. 15.

9. "Poor can't get bank services, coalition charges," Montreal Gazette, Oct. 18, 1997, p. A5.

10. Option consommateurs and the Canadian Bankers Association were co-operating on another access survey planned for the end of the summer of 1998.

11. A copy of Rule G-8 can be found in Appendix 3 of the ACEF report along with information about similar plans in Quebec and B.C.

12. Option consommateurs, Les portes closes (Montreal, June 17, 1998), pp. 58, 109, 115-120, 123. The quote on the next page of the text is from p. 125.

13. ACEF, p. 60.

14. Canadian Bankers Association, Submission to the Task Force on the Future of the Canadian Financial Services Sector (October 1997), p. 28.

15. ACEF, p. 14.

16. Zenewych, p. 26.

17. CBA Submission to the Task Force, p. 31.

18. Zenewych, p. 22.

19. The address of the Internet site is http://strategis.ic.gc.ca.

20. ACEF, p. 60 and Appendix 2.

21. ACEF, p. 61-63. The text of the U.S. law can be found in Appendix 7 of the report.

22. CBA Submission to the Task Force, p. 57.

23. Canadian Banking Ombudsman, Submission to the Task Force on the Future of the Canadian Financial Services Sector (October 1997).

24. Same.

25. ACEF, pp. 64-65.

26. Thompson Lightstone and Co. Ltd., Small and Medium Sized Business in Canada (Toronto: Canadian Bankers Association, 1997), p. 100.

27. Canadian Community Reinvestment Coalition (CCRC), Ending Power Without Accountability, Position Paper #6 (Ottawa, May 1998), p. 11.

28. Same, pp. 11-14. The CCRC maintains that the surveys do a very poor job of tracking credit to small and fledgling businesses. It says an analysis of statistics for the two-year period that ended September 30, 1997, actually shows a decrease in credit authorizations for loans valued at less than $250,000.

29. The information in this section comes from: Jonathan Brown with Charles Bennington, Racial Redlining: A Study of Racial Discrimination by Banks and Mortgage Companies in the United States (Washington, D.C.: Essential Information Inc., undated).

30. The home page of the Comptroller's office is at http://www.occ.treas.gov.

31. The information in Table 3 was adapted from the table on page 15 of the bank's evaluation dated September 30, 1997.

32. National Council for Urban Economic Development, The Community Reinvestment Act and Economic Development: A Profile of Community Lending in Eight Cities (Washington, D.C., undated), pp. 3-10.

33. "January deal sparked merger fire," Ottawa Citizen, p. E1.

34. Maclean's, Feb. 2, 1998, p. 43, and May 4, 1998, p. 18.

35. "Stockbrokers wary of bank mergers," Ottawa Citizen, April 25, 1998.

36. Toronto Globe and Mail, April 18, 1998, pp. B6-B7.

37. CCRC, pp. 3-4.

38. G. Frank Mathewson and Neil C. Quigley, "Canadian Bank Mergers: Efficiency and Consumer Gain versus Market Power," C.D. Howe Institute Commentary, June 1998.

39. "How much better is bigger?" Ottawa Citizen, April 18, 1998, p. E2.

40. CBA Submission to the Task Force, pp. 9-10.

41. Employment Equity Act 1994 annual report, p. 45.

42. Les portes closes, p. 18 and Appendix 2.

43. H.H. Binhammer, Money, Banking and the Canadian Financial System (Toronto: Nelson Canada, 1988), pp. 220-223.

44. The questions and the quote that follows come from John S. McCallum, "Issues to Address Before Letting the Banks Merge," Policy Options (May 1998), pp. 39-41.

45. The information for this study is drawn mainly from public documents made available by Jim Green and Monica Hay of the Crown Corporations Secretariat of the Ministry of Employment and Investment, supplemented by files made available by the Downtown Eastside Residents Association, a limited number of other printed sources and interviews with key people associated with the bank or the community.

46. City of Vancouver, Downtown Eastside Community Monitoring Report, Spring 1997, p. 2.

47. Vancouver Sun article by Philip Owen, Mayor of Vancouver, p. A23, Oct. 24, 1997.

48. Penny Parry, HIV/AIDS and Injection Drug use in the DTES (Vancouver: September 1997).

49. Constable Walter McKay and Constable Toby Hinton, "Skid Road Meets ... Adam Smith," Vancouver Sun, Oct. 24, 1997, p. A21.

50. The Ross Montgomery & Associates Ltd. study, a contemporary journal article, a Royal Bank of Canada pamphlet, and a former Royal Bank manager all provided information about this experiment.

51. Letter from Minister of Social Services Claude Richmond to Jim Green at DERA, Dec. 3, 1987.

52. Downtown Eastside Residents Association, Downtown Deposit Project - Summary and Evaluation, (Vancouver, 1990), p. 2.

53. "A Poor Man's Banker," B.C. Business, September 1997, p. 34.

54. Ross Montgomery & Associates Ltd., Report for Ministry of Finance and Corporate Relations (September 8, 1993), p. 5.

55. Same, p. 9.

56. "Four Corners gets $1 million injection," Vancouver Sun, Oct. 4, 1997. p. F3.

57. "Move aside, ex-Four Corners GM tells Green," Vancouver Sun, Oct. 31, 1997, pp. E1, E17.

58. Interviews with a retired and a current general manager of Four Corners, Sept. 25 and Nov. 24, 1997.

MEMBERS OF THE NATIONAL COUNCIL OF WELFARE

Mr. John Murphy (Chairperson)

Canning, Nova Scotia

Mr. Armand Brun (Vice-Chairperson)

Shediac, New Brunswick

Ms. Doris Bernard	Radisson, Quebec
Ms. Olive Crane	Mt. Stewart, Prince Edward Island
Ms. Helen Margaret Finucane	Regina, Saskatchewan
Mr. Bruce Hardy	Surrey, British Columbia
Ms. Dana Howe	Windsor, Ontario
Mr. David S. Northcott	Winnipeg, Manitoba
Ms. Lorraine Tordiff	Fort Smith, Northwest Territories

****

Director: Steve Kerstetter

Consultant: Kathleen Jamieson, Social Planning and Research Council of B.C.

Senior Researcher and Policy Adviser: Joanne Roulston

Liaison Officer: Carole Lanthier Bayram

Publications Officer: Anna Kyle

NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969, as a citizens' advisory body to the federal government. It advises the Minister of Human Resources Development on matters of concern to low-income Canadians.

The Council consists of members drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income people, as well as educators, social workers and people involved in voluntary or charitable organizations.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, welfare reform, medicare, poverty lines and poverty statistics, the retirement income system, taxation, labour market issues, social services and legal aid.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, 2e étage, 1010 rue Somerset ouest, Ottawa K1A 0J9.